

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CHIPPENAW COUNTY ROAD COMMISSION	County CHIPPENAW
Audit Date DECEMBER 31, 2004	Opinion Date MARCH 16, 2005	Date Accountant Report Submitted to State: MAY 6, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ANDERSON, TACKMAN & COMPANY, P.C.			
Street Address 16478 S. RILEY AVE	City KINCHELOE	State MI	ZIP 49788
Accountant Signature Anderson Tackman & Co P.C.			

CHIPPEWA COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

CHIPPEWA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONS

Clifford H. Car
Chairman

Donald M. Hold
Vice Chairman

Louis N. MacDonald
Member

Dirk Heckman
Engineer – Manager

Brian Decker
Office Manager

Christine McDowell
Clerk

Paul Wilson
General Superintendent

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the governmental activities and the major fund of the Chippewa County Road Commission (a component unit of the County of Chippewa, Michigan) as of and for the year ended December 31, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Chippewa County Road Commission as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2005, on our consideration of the Chippewa County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chippewa County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 16, 2005

Management's Discussion and Analysis

Using This Annual Report

The Chippewa County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 28 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 5.22% from \$56.4 million to \$59.3 million for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$399,021. The primary reason for the increases was an increase in federal and state support for road projects.

Net assets as of the years ended December 31, 2004 and 2003 follows:

	Governmental Activities	
	2004	2003
Current and Other Assets	\$ 4,145,406	\$ 4,144,462
Capital Assets	<u>57,648,877</u>	<u>54,885,767</u>
Total Assets	<u>61,794,283</u>	<u>59,030,229</u>
Current Liabilities	1,208,177	1,501,398
Other Liabilities	<u>1,266,294</u>	<u>1,151,419</u>
Total Liabilities	<u>2,474,471</u>	<u>2,652,817</u>
Net Assets		
Invested in Capital Assets	56,468,211	53,924,832
Restricted	<u>2,851,601</u>	<u>2,452,580</u>
Total Net Assets	<u>\$ 59,319,812</u>	<u>\$ 56,377,412</u>

A summary of changes in net assets for the years ended December 31, 2004 and 2003 follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Program Revenues		
Charges for Services	\$ 1,532,700	\$ 1,542,635
Operating Grants and Contributions	7,642,915	9,903,513
Interest Income	14,334	25,313
General Revenues		
Property Taxes	558,376	505,536
Gain on Equipment Disposal	46,450	58,500
Other General Revenues	<u>25,845</u>	<u>10,745</u>
Total Revenues	<u>9,820,620</u>	<u>12,046,242</u>
Program Expenses		
Primary Roads	2,753,597	2,208,676
Local Roads	2,124,014	1,868,666
State Trunkline		
Maintenance	1,465,748	1,425,259
Equipment Expense	268,615	436,651
Administrative	235,850	292,328
Interest Expense and Other	<u>30,396</u>	<u>(89,928)</u>
Total Expenses	<u>6,878,220</u>	<u>6,141,652</u>
Increase in Net Assets	<u>\$ 2,942,400</u>	<u>\$ 5,904,590</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund increased \$309 thousand as compared to a decrease of \$882 thousand in the fund balance for the prior year. Total revenues were \$9.8 million, a decrease of \$2.23 million as compared to last year. This change in revenues resulted primarily from federal funding.

Total expenditures were \$10 million, a decrease of \$2.9 million as compared to last year. This change in expenditures is primarily the result of heavy maintenance activities in the current year. The road commission incurred an increase to capital outlay last year due to significant construction to buildings.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2004 was lower than the actual receipts by \$96 thousand. This was due, in a large part, to the projection of state funding. The road commission budgets for the receipt of funds from the state for projects on primary and local roads. This year, the revenue from state contributions was higher than projected in the amount of \$5.7 million by \$59 thousand.

Road Commission expenditures were projected at \$10.02 million while actual expenditures were \$10 million. This resulted in total expenditures being under budget by \$12 thousand. There were three items that account for most of the variance in the projection of the budget. A share of the variance is in the area of capital outlay. Expenditures for capital outlay were over the budget by \$214 thousand.

Capital Assets

As of December 31, 2004 and 2003, the road commission had invested in capital assets as follows:

	<u>2004</u>	<u>2003</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 89,966	\$ -
Land and Improvements	29,271,685	28,416,271
Other Capital Assets		
Buildings and Improvements	4,071,882	3,651,113
Road Equipment	9,257,533	9,044,434
Other Equipment	1,332,375	724,272
Infrastructure and Improvements	<u>38,950,738</u>	<u>37,811,643</u>
Total Capital Assets at Historic Cost	82,974,179	79,647,733
Total Accumulated Depreciation	<u>(25,325,302)</u>	<u>(24,761,966)</u>
Total Net Capital Assets	<u>\$ 57,648,877</u>	<u>\$ 54,885,767</u>

Current year's major additions included the following:

Buildings	\$ 420,769	\$ 1,154,836
Land & Improvements	\$ 945,380	\$ 3,698,443
Various Resurfacing Projects	\$ 3,038,772	\$ 3,622,457
Trucks/Equipment/Other	\$ 937,229	\$ 255,897

Debt

The road commission currently has long-term debt in the amount of \$1.6 million which represents land and equipment financing and compensated absences. During the year the Commission executed two loans totaling \$536,428.

Economic Factors and Next Year's Budget

The board of county road commissioner's considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 63% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. If a decrease in funding occurs, road projects may be reduced. Additionally, management may consider reducing labor costs through attrition and adjusting health care benefits.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Chippewa County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chippewa County Road Commission administrative offices at 3949 S. Mackinac Trail, Sault Ste. Marie, MI 49783.

Basic Financial Statements

Chippewa County Road Commission

Statement of Net Assets December 31, 2004

ASSETS

Cash and Equivalents	\$ 1,268,167
Accounts Receivable	
Taxes	547,711
Michigan Transportation Fund	712,361
State – Other	74,800
Due on County Road Agreements	414,339
Sundry Accounts	9,029
Trunkline Maintenance	273,817
Inventories	
Road Materials	482,211
Equipment, Parts and Materials	246,699
Prepaid Expense	116,272
Capital Assets (Net of Accumulated Depreciation)	<u>57,648,877</u>
Total Assets	<u>\$ 61,794,283</u>

LIABILITIES

Current Liabilities	
Accounts Payable	\$ 236,158
Due to State of Michigan	717
Accrued Liabilities	51,137
Advances from State	527,249
Advances from Other Units	47,903
Installment Purchase Agreements Payable	345,013
Noncurrent Liabilities	
Vested Employee Benefits	430,641
Installment Purchase Agreements Payable	<u>835,653</u>
Total Liabilities	<u>2,474,471</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	56,468,211
Restricted for County Road	<u>2,851,601</u>
Total Net Assets	<u>\$ 59,319,812</u>

Chippewa County Road Commission

Statement of Activities For the Year Ended December 31, 2004

Program Expenses	
Primary Roads	\$ 2,753,597
Local Roads	2,124,014
State Trunkline Maintenance	1,465,748
Net Equipment Expense	268,615
Net Administrative Expense	235,850
Other	(22,225)
Interest Expense	<u>52,621</u>
Total Program Expenses	<u>6,878,220</u>
Program Revenues	
Federal Grants	687,071
State Grants	5,747,492
Contributions from Local Units	1,208,352
Charges for Services	1,532,700
Investment Earnings and Other	<u>40,179</u>
Total Program Revenues	<u>9,215,794</u>
Net Program Revenues	<u>2,337,574</u>
General Revenue	
Property Taxes	558,376
Gain on Equipment Disposal	<u>46,450</u>
Total General Revenues	<u>604,826</u>
Change in Net Assets	2,942,400
Net Assets	
Beginning of Year	<u>56,377,412</u>
End of Year	<u><u>\$ 59,319,812</u></u>

Chippewa County Road Commission

Balance Sheet December 31, 2004

	Governmental Fund Type General Operating Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 1,268,167
Accounts Receivable	
Property Taxes	547,711
Michigan Transportation Fund	712,361
State Trunkline Maintenance	273,817
State – Other	74,800
Due on County Road Agreements	414,339
Sundry Accounts	9,029
Inventories	
Road Materials	482,211
Equipment, Parts, and Materials	246,699
Prepaid Expenses	<u>116,272</u>
Total Assets	<u>\$ 4,145,406</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 236,158
Accrued Liabilities	51,137
Due to State of Michigan	717
Advances from Other Units	47,903
Advances from State	527,249
Deferred Revenue	<u>547,711</u>
Total Liabilities	<u>1,410,875</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>2,734,531</u>
Total Fund Equities	<u>2,734,531</u>
Total Liabilities and Fund Equities	<u>\$ 4,145,406</u>

**Reconciliation of the Balance Sheet Fund
Balance to the Statement of Net Assets
For the Year Ended December 31, 2004**

Total Governmental Fund Balance \$ 2,734,531

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 57,648,877

Other long-term assets are not available to pay for current period
expenditures and therefore are not reported in the funds. (1,611,307)

2004 tax levy not considered "available" in governmental funds
but is recognized as revenue in the statement of activities. 547,711

Net Assets of Governmental Activities \$ 59,319,812

Chippewa County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2004

	General Operating Fund
Revenues	
Property Taxes	\$ 516,201
Federal Sources	687,071
State Sources	5,747,492
Contributions from Local Units	1,208,352
Charges for Services	1,532,700
Interest and Rents	14,334
Other Revenue	<u>72,295</u>
Total Revenues	<u>9,778,445</u>
Expenditures	
Public Works	9,234,863
Capital Outlay	401,995
Debt Service	<u>369,318</u>
Total Expenditures	<u>10,006,176</u>
Excess of Revenues Over (Under) Expenditures	(227,731)
Other Financing Sources	
Installment Proceeds	<u>536,428</u>
Excess Revenue and Other Financing Sources	308,697
Fund Balance – January 1, 2004	<u>2,425,834</u>
Fund Balance – December 31, 2004	<u>\$ 2,734,531</u>

Chippewa County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2004

Net Change in Fund Balance – Total Governmental Funds	\$ 308,697
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation and equipment retirements in the current period.	2,763,110
Net increase in revenue between 2004 and 2003 tax levy.	42,175
Note/lease proceeds provide current financial resources in governmental funds and increases liabilities. Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	(219,731)
Change in compensated absences recognized as an expense in the statement of activities.	<u>48,149</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,942,400</u>

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chippewa County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Chippewa County Road Commission.

The Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Chippewa County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the Chippewa County Board of County Commissioners. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Chippewa County Road Commission, a discretely presented component unit of Chippewa County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Chippewa County Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or EquityCash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Property Taxes Receivable

The property tax is levied on each December 1st. on the taxable valuation of property located in the County as of the preceding December 1st. The 2004 taxable valuation of the Chippewa County Road Commission amounted to \$773,102 less \$225,391 for cities and villages, on which ad valorem taxes of .9779 mills were levied for the Road Commission for road construction purposes for a total \$547,711.

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year.

Although the County's 2004 ad valorem tax is levied and collectible December 1, 2004, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Chippewa County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Chippewa County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Vacation – Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee's discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated at the rate of pay in effect when it was earned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick Leave – Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 480 hours of sick leave. Upon death or retirement, employees are paid for 50% of their accumulated sick hours to a maximum of 240 hours at their current rate of pay.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Financial Director prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are listed in the Budgetary Comparison Schedule – Statement of Expenditures.

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 150
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>1,268,017</u>
Total Cash	<u>\$ 1,268,167</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	<u>\$ 1,268,017</u>	<u>\$ 1,423,779</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The Road Commission would receive its proportional share of insurance coverage. However, given the amount of the Road Commission's funds relative to the bank account total, we estimate that \$200,100 of the Road Commission's fund to be insured.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Chippewa County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Chippewa County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Chippewa County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Chippewa County Road Commission for the current year was as follows:

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Capital Assets Not Being Depreciated				
Construction in Progress	\$ -	\$ 89,966	\$ -	\$ 89,966
Land and Improvements	283,480	-	-	283,480
Land/Improvements - Infrastructure	28,132,791	855,414	-	28,988,205
Subtotal	28,416,271	945,380	-	29,361,651
Capital Assets Being Depreciated				
Buildings	3,651,113	420,769	-	4,071,882
Road Equipment	9,044,434	317,755	104,656	9,257,533
Shop Equipment	146,973	6,051	5,897	147,127
Office Equipment	53,648	6,356	5,160	54,844
Engineers' Equipment	30,091	5,061	314	34,838
Depletable Assets	493,560	602,006	-	1,095,566
Infrastructure – Roads	26,445,769	2,895,769	1,899,677	27,441,861
Infrastructure – Bridges	11,365,874	143,003	-	11,508,877
Subtotal	51,231,462	4,396,770	2,015,704	53,612,528

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Less Accumulated Depreciation				
Buildings	1,111,058	115,890	-	1,226,948
Road Equipment	7,121,437	817,013	91,505	7,846,945
Shop Equipment	77,513	9,850	5,898	81,465
Office Equipment	40,153	6,628	5,160	41,621
Engineers' Equipment	23,963	4,054	314	27,703
Depletion	55,095	15,342	-	70,437
Infrastructure – Roads	11,179,190	1,337,676	1,899,677	10,617,189
Infrastructure – Bridges	<u>5,153,557</u>	<u>259,437</u>	<u>-</u>	<u>5,412,994</u>
Subtotal	<u>24,761,966</u>	<u>2,565,890</u>	<u>2,002,554</u>	<u>25,325,302</u>
Net Capital Assets Being Depreciated	<u>26,469,496</u>	<u>1,830,880</u>	<u>13,150</u>	<u>28,287,226</u>
Total Net Capital Assets	<u>\$ 54,885,767</u>	<u>\$ 2,776,260</u>	<u>\$ 13,150</u>	<u>\$ 57,648,877</u>

Depletion/depreciation expense was charged to programs of the Chippewa County Road Commission as follows:

Primary Road Maintenance	\$ 1,027,253
Local Road Maintenance	569,860
Equipment Expenses	817,013
Administrative	11,994
Other Allocated	<u>139,770</u>
Total Depreciation Expense	<u>\$ 2,565,890</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Chippewa County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Chippewa County Road Commission’s competitive bargaining units and requires an employer contribution of 0% to 10% of wages. The commission contributed an additional 12.66%.

Annual Pension Costs – For year ended 2004, the Chippewa County Road Commission’s annual pension cost of \$232,026 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2003 as follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 9,294,205	\$ 9,255,579	\$ 9,626,892
Actuarial Accrued Liability	10,559,689	11,187,090	12,002,874
Unfunded AAL	1,265,484	1,931,511	2,375,982
Funded Ratio	88%	83%	80%
Covered Payroll	2,162,460	2,274,735	2,487,392
UAAL as a Percentage of Covered Payroll	59%	85%	96%

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2004, the federal aid received and expended by the Road Commission was \$687,071 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Balance 01/01/04	Additions	Deletions	Balance 12/31/04	Due Within One Year
Installment payable secured by real estate mortgage, payable in monthly installments of \$5,055 including interest of 3.90%	\$ -	\$ 501,649	\$ 27,715	\$ 473,934	\$ 42,939
Installment payable secured by equipment, payable in monthly installments of \$648 including interest of 4.5%	-	34,779	1,984	32,795	6,436
Installment payable secured by (14) Peterbilt Trucks, payable in monthly installments of \$21,368 including interest of 4.46%	797,425	-	224,020	573,405	235,664
Installment payable secured by equipment, payable in monthly installments of \$870 including interest of 5.90%	5,975	-	5,975	-	-
Installment payable secured by equipment, payable in monthly installments of \$3,088 including interest of 5.20%	89,323	-	33,242	56,081	34,957
Installment payable secured by equipment, payable in monthly installments of \$2,228 including interest of 5.20%	68,212	-	23,761	44,451	25,017
Subtotal	960,935	536,428	316,697	1,180,666	\$ 345,013
Compensated Absences (1)	478,790	-	48,179	430,641	
TOTAL LONG-TERM DEBT	\$ 1,439,725	\$ 536,428	\$ 364,846	\$ 1,611,307	

(1) Net decrease.

Annual debt service requirements are as follows:

	2005	2006	2007	2008	2009	Thereafter	Total
Principal	\$ 345,013	\$ 338,403	\$ 143,424	\$ 55,625	\$ 55,395	\$ 242,806	\$ 1,180,666

NOTE 10 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the County Road Commission provides post-employment health care and cancer insurance benefits to all retired employees and/or their spouse and life insurance benefits for the retiree only. The benefits are provided in accordance with the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the Road Commission agrees to pay for the supplemental health insurance coverage for both.

For all employees, the Road Commission agrees to pay the premium for each employee and spouse at time of retirement. Upon eligibility for Medicare, the Employer agrees to pay for Blue Cross/Blue Shield supplemental coverage for both the retiree and his spouse. Post employment insurance expenses for fiscal 2004 were \$433,999 including retiree's portion of \$115,550.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claim may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

Risk Management – The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Environmental Remediation – The commission has implemented extensive clean-up procedures and contamination removal at its Strong's, Michigan location. Ongoing monitoring of any continuing contamination has been implemented. Future potential liabilities, if any, are undeterminable as of the opinion date.

NOTE 12 - SUBSEQUENT EVENTS

During January 2005 and February 2005, the Commission authorized equipment purchases in the amount of \$224,798 to be paid for with current funds. No borrowings are anticipated.

Required Supplemental Information

Chippewa County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxes	\$ 450,000	\$ 518,000	\$ 516,201	\$ (1,799)
Federal Sources	645,000	690,000	687,071	(2,929)
State Sources	4,689,000	5,689,000	5,747,492	58,492
Contributions from Local Units	800,000	1,180,000	1,208,352	28,352
Charges for Services	1,300,000	1,500,000	1,532,700	32,700
Other Revenue	<u>635,000</u>	<u>642,000</u>	<u>623,057</u>	<u>(18,943)</u>
Total Revenue	<u>\$ 8,519,000</u>	<u>\$ 10,219,000</u>	<u>\$ 10,314,873</u>	<u>\$ 95,873</u>

Chippewa County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road	\$ 1,870,000	\$ 3,851,000	\$ 3,864,586	\$ (13,586)
Local Road	1,985,000	3,395,000	3,400,064	(5,064)
State Trunkline	1,300,000	1,500,000	1,465,748	34,252
Equipment Expense – Net	(350,000)	460,000	268,615	191,385
Administrative Expense – Net	125,500	255,000	235,850	19,150
Capital Outlay – Net	367,500	188,000	401,995	(213,995)
Other	1,749,000	-	-	-
Debt Service	<u>376,800</u>	<u>369,400</u>	<u>369,318</u>	<u>82</u>
Total Expenditures	7,423,800	10,018,400	<u>\$ 10,006,176</u>	<u>\$ 12,224</u>
Fund Balance – January 1, 2004	<u>2,425,834</u>	<u>2,425,834</u>		
Total Budget	<u>\$ 9,849,634</u>	<u>\$ 12,444,234</u>		

Chippewa County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 3,782,809	\$ 3,604,571	\$ 2,927,493	\$ 10,314,873
Total Expenditures	<u>4,096,208</u>	<u>3,604,571</u>	<u>2,305,397</u>	<u>10,006,176</u>
Excess of Revenues Over (Under) Expenditures	(313,399)	-	622,096	308,697
Fund Balance – January 1, 2004	<u>1,841,900</u>	<u>-</u>	<u>583,934</u>	<u>2,425,834</u>
Fund Balance – December 31, 2004	<u>\$ 1,528,501</u>	<u>\$ -</u>	<u>\$ 1,206,030</u>	<u>\$ 2,734,531</u>

Chippewa County Road Commission

Analysis of Revenues For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	\$ -	\$ -	\$ 516,201	\$ 516,201
Federal Sources				
Surface Transportation Program	687,071	-	-	687,071
State Sources				
Michigan Transportation Fund				
Engineering	5,600	4,400	-	10,000
Allocation	2,421,041	1,874,457	-	4,295,498
Urban	157,620	29,905	-	187,525
Snow Removal	51,327	296,890	-	348,217
Other	-	-	276,431	276,431
Economic Development Fund				
Target Industries (A)	185,292	-	-	185,292
Rural Primary (D)	191,996	-	-	191,996
Forest Road (E)	-	230,365	-	230,365
Other	-	22,168	-	22,168
Contributions from Local Units				
Township	67,968	1,137,636	-	1,205,604
Other	-		2,748	2,748
Charges for Services				
State Trunkline Maintenance	-	-	1,411,520	1,411,520
Nonmaintenance	-	-	115,283	115,283
Salvage Sales	-	-	5,897	5,897
Other Revenue				
Miscellaneous	-	-	-	-
Interest and Rents	10,894	-	3,440	14,334
Gain on Disposals	-	-	46,450	46,450
Other	4,000	8,750	13,095	25,845
Other Financing Sources				
Installment Proceeds	-	-	536,428	536,428
Total Revenue	<u>\$ 3,782,809</u>	<u>\$ 3,604,571</u>	<u>\$ 2,927,493</u>	<u>\$ 10,314,873</u>

Chippewa County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Heavy Maintenance	\$ 2,138,242	\$ -	\$ -	\$ 2,138,242
Maintenance	1,726,344	-	-	1,726,344
Local Road				
Heavy Maintenance	-	1,845,910	-	1,845,910
Maintenance	-	1,554,153	-	1,554,153
State Trunkline Maintenance	-	-	1,350,465	1,350,465
State Trunkline Nonmaintenance	-	-	115,283	115,283
Equipment Expense – Net	106,157	94,123	68,336	268,616
Administrative Expense – Net	125,465	110,385	-	235,850
Capital Outlay – Net	-	-	401,995	401,995
Debt Service				
Debt Principal Payments	-	-	316,697	316,697
Interest Expense	-	-	52,621	52,621
Total Expenditures	<u>\$ 4,096,208</u>	<u>\$ 3,604,571</u>	<u>\$ 2,305,397</u>	<u>\$ 10,006,176</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, Michigan 49783

We have audited the financial statements of the governmental activities and major fund of the Chippewa County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated March 16, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Chippewa County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated March 16, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chippewa County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as listed in the accompanying Schedule of Findings as item 04-1.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 16, 2005

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 04-1

Condition: Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's 2004 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2004 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2004, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 27 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Chippewa County Road Commission

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2004

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT)				
Mackinac Trail	20.205	STP 0317(319)	58430	\$ 177,041
6 Mile Road	20.205	STP 0317(318)	72812	26,414
Riverside Drive	20.205	MG 0417(016)	78859	104,059
Mackinac Trail	20.205	MG 0417(015)	76691	<u>304,757</u>
Subtotal MDOT Administered				<u>612,271</u>
Pass-through from the State of Michigan Department of Transportation (MDOT) – Local Force Account				
East Shore Road from 1 1/2 Mile Road	20.205	STL 17070	76692	<u>74,800</u>
Subtotal CCRC Administered				<u>74,800</u>
Total U.S. Department of Transportation:				<u>687,071</u>
Total Expenditures of Federal Awards				<u>\$ 687,071</u>



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OFFICES IN
MICHIGAN & WISCONSIN

Chippewa County Road Commission

Communication with the Board of County Road Commissioners
December 31, 2004

Members of the Board of County Road Commissioners
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

We have audited the financial statements of the Chippewa County Road Commission for the year ended December 31, 2004, and have issued our report thereon dated March 16, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Chippewa County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Chippewa County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Chippewa County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Chippewa County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the component unit financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the component unit financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Trunkline maintenance contract liabilities, estimated useful lives of property, plant and equipment, and insurance reserves are some items which are estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the component unit financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Chippewa County Road Commission that could potentially cause future financial statements to be materially misstated.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the component unit financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road's component unit financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Chippewa County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Infrastructure Capitalization – Prior Year

The Road Commission will be required to identify and depreciate infrastructure assets as required by GASB 34. The Commission should adopt a threshold of \$5,000 or \$10,000 to provide guidance on depreciable items capitalized.

Status: Uncorrected.

Sick Pay Liability

The Commission currently records its sick pay liability for employees, which includes earned amounts. The procedure should be amended to include amounts payable upon termination, which would result in a \$60,000 decrease in liability during 2004.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Chippewa County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 16, 2005